



COUNTY OF LOS ANGELES

Internal Services Department

1100 North Eastern Avenue
Los Angeles, California 90063



Dave Lambertson
Interim Director

To enrich lives through effective and caring service.

Telephone: (323) 267-2101
FAX: (323) 264-7135

August 3, 2004

To: Each Supervisor

From: Dave Lambertson 
Interim Director

Subject: **FLEET MAINTENANCE CONTRACT ISSUES**

Johnson Controls Incorporated (JCI) was awarded the contract for Fleet Maintenance effective August 1, 2003. This memorandum is to alert your Board of two significant issues associated with this contract.

Contractor Performance

The Quality Assurance Plan included in the fleet maintenance contract provides that the Board be notified if there are performance deficiencies that, if not corrected, will place the contract in jeopardy. I believe that JCI's recent performance warrants a report to the Board in this regard.

Overall, JCI is not meeting the performance standards in the contract. The most notable deficiencies include:

- ♦ Failure to provide estimates within one business day and to consistently receive approval for estimates prior to commencing work.
- ♦ Failure to meet repair turnaround time frames, for various types of repairs, in a consistent manner.
- ♦ Failure to create repair orders timely and enter completed repair orders into the Fleet System in a timely manner.

In addition, ISD contract monitors have observed instances of poor customer service practices. These include not meeting and attending to customers when they arrive at the shops and untimely responses to customer inquiries.

Through July 2004, ISD has issued 443 Contract Discrepancy Reports to JCI and has assessed penalties totaling \$60,750. Of note, 340 (or 77%) of the contract discrepancies occurred in the last three months, reflective of JCI's deteriorating

performance during this period. Additionally, ISD requested the removal of the JCI Project Manager assigned to the contract. JCI complied with our request and the change was made June 14, 2004. The new Project Manager is making improvements and is more closely monitoring operations. However, in keeping with the contract requirements ISD has requested JCI to develop a formal Correction Action Plan for our review and approval. In accordance with the terms of the contract, JCI's failure to implement a plan to correct these deficiencies could result in termination.

New Compensation Model for Mechanics

On August 5, 2003, the Board approved a Motion instructing ISD to report back with a plan that would result in all JCI employees hired under the Fleet Contract to receive pay comparable to what they received when employed by the previous contractor (PCA.) Essentially, JCI volunteered to adopt a pay plan to meet the objectives of this Motion.

JCI has informed ISD that they plan to change the pay plan for all mechanics working on ISD's Fleet Contract to what is commonly referred to as a "flat-rate" plan. There are several elements to the plan, but the basic approach is:

- ♦ Mechanics will receive some increase in their hourly rates. The amount of the incentive is unknown at this time.
- ♦ Mechanics will be paid for the standard hours to complete a repair per the labor time guide, regardless of the actual time required. For example, if a six-hour job only takes the mechanic four hours, he will still receive six hours of pay. Conversely, if the job actually takes ten hours, the mechanic is only paid for the six hours (based on the labor time guide standard).
- ♦ Mechanics will not be paid for comebacks (vehicles returned to the shop because the repairs were not performed properly the first time).

JCI advises that flat rate pay is a common automotive repair industry pay practice and is used as an incentive to increase productivity. ISD's concerns are:

- ♦ The proposed plan is inconsistent with the Board Motion that JCI previously volunteered to comply with, and
- ♦ May create an incentive for mechanics to inappropriately close work orders and under report warranty work.

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While it is a common pay practice, experts in the industry disagree on the benefits of flat rate pay. There are those that believe a flat rate plan can also improperly provide an incentive for mechanics to overwrite repairs, take credit for repairs not performed and treat repairs that should be comebacks as new work orders. In ISD's view, given JCI's inability to monitor and maintain performance standards now, it is not certain that JCI could employ a plan that would prevent abuses from occurring.

At this time it is not feasible to determine what specific impact adoption of a flat rate plan will have on JCI's workforce. We do not know the amount of the proposed hourly increases or whether mechanics will improve their productivity. It is safe to assume that ultimately some mechanics will be paid more and some less than what they are currently receiving. To date, JCI has not finalized all the specifics of the plan or a date certain for its implementation. Should JCI decide to move forward with this change, I will provide your Board with more specific recommendations.

Next Steps

Although correctable, I believe that the deficiencies in performance by JCI put the viability of this contract at risk. ISD will closely monitor JCI's compliance with the Correction Action Plan. ISD is also preparing recommendations on alternatives for the provision of fleet maintenance services in the event that contract termination is required. This report should be completed in the near future.

Please contact me or have your staff contact Daphne Bell, General Manager, Purchasing & Contracts Service, at 323 267-2109, if you have questions in the interim.

DL:sg

c: David E. Janssen, Chief Administrative Office
Ray Fortner, Chief Deputy County Counsel